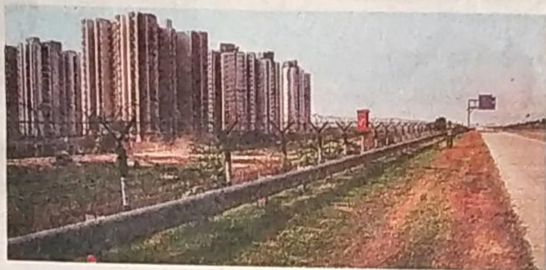
A fresh lease of life for real estate?

BANKER'S TRUST

TAMAL BANDYOPADHYAY

The Reserve Bank has taken all the right steps to attract home buyers and encourage housing finance companies. A couple of other things can complete the suite



Real estate developers have started announcing the return of the buyers to the market, setting the stage for an increase in home prices. In a seemingly related development, despite a fall in household income, this calendar year, Kolkata has emerged as the most affordable market for buying a property, compared with six other major cities across India — Hyderabad, Pune, Chennai, Bengaluru, Delhi-NCR and Mumbai — according the JLL Home Purchase Affordability Index.

A sharp drop in home loan rates is the most potent contributor to this. Barring the affordable housing segment, most mortgage lenders are offering loans at below 7 per cent even as the Indian central bank keeps on reiterating that it could pare its historic low policy rata yet again as and when the space for such a cut opens up.

There are other developments adding to the bullish sentiment in the real estate sector. Home finance is being redefined and the rules of the business are being changed.

Going by rating agency ICRA Ltd's report, as of March 2020, the size of the housing finance market was ₹21.2 trillion. Another agency puts the number of active home loan accounts at 16.4 million. Roughly, the banks had a 66 per cent market share and the housing finance companies (HFCs), 34 per cent, with around ₹7.1 trillion exposure. However, their overall loan assets were to the tune of ₹11 trillion, including finance to commercial real estates, builders and loan against property. In September 2018, the banks' share had been 62 per cent. In the past two years, they consolidated their market share, buying loan assets from the HFCs who found the going tough as they borrowed short-term cheap money from the market to lend long.

Dewan Housing Finance Corp Ltd, the fourth largest HFC by assets, has bitten the dust; Indiabulls Housing Finance Ltd and even PNB Housing Finance Ltd started shrinking their books. Twenty HFCs — led by Housing Development Finance Corp Ltd, LIC Housing Ltd and PNB Housing — have 70 per cent share of the home loan portfolio, while State Bank of India, ICICI Bank Ltd, Axis Bank Ltd and Bank of Baroda rule the banks' turf of the mortgage market.

The Reserve Bank of India (RBI) wants the HFCs to have at least 60 per cent of housing finance assets by March 31, 2024. By that time, the individual home loans must be 50 per cent. What is the glide path for achieving this? By March 2022, the HFCs should have 50 per cent housing finance assets and 40 per cent individual home loans. In the second stage, by March 2023, at least 55 per cent of total assets must be housing finance and 45 per cent individual home loans.

The new norms will encourage some of the relatively large HFCs, such as Indiabulls, Piramal Capital & Housing Finance Ltd, Religare Housing Development Finance Corp Ltd and Reliance Home Finance Ltd, among others, to chase individual home buyers to bring down their non-retail exposure. Some of the smaller HFCs, too, will have to do that as cash and bank balances are being considered to compute the total assets; many of them prefer to stay liquid for different reasons.

The new norms have also made it clear that those HFCs that house real estate developing companies cannot give loans to both the in-house developers as well as the home buyers. Indiabulls, Piramal, Tata Capital Housing Finance Ltd, Godrej Housing Finance Ltd, the Mahindra group outfit and a few others would need to redraw this business plan. Again, retail customers will get the benefit.

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The RBI has also widened the definition of housing finance assets and, more importantly, changed the risk weight norms. Till recently, the risk weight for a home loan was linked to the size of the loan as well as the so-called loan to value ratio (LTV) — a ratio that determines the amount necessary to put in a down-payment by the home buyer and the credit a lender can extend. For instance, earlier, for up to a loan of ₹30 lakh, the maximum LTV allowed was 90 per cent. This means, for a home worth ₹10 lakh, a lender could give a loan of up to ₹9 lakh. If the LTV was 80 per cent or less, the risk weight was 35 per cent; but beyond 80 per cent, it was 50 per cent. Higher risk weight calls for higher capital allocation and increases the cost of money for the lender.

Similar arrangements were in place for higher home loans. The RBI has removed the buckets. For any home loan with up to 80 per cent LTV, the risk weight is now 35 per cent; and beyond that, up to 90 per cent, it is 50 per cent. With the change in the definition of retail loan — the upper limit being raised from ₹5 crore to ₹7.5 crore — the size of home loans has also gone up. These norms are applicable to all new housing loans sanctioned up to March 31, 2022.

The capital requirement for an HFC is being raised from ₹10 crore to ₹20 crore by March 2023. This may sound too little, but smaller HFCs are critical to cater to the needs of the home buyers in the Northeastern region as well as Bihar, Odisha, Jharkhand and many other states. The market must expand beyond Maharashtra, Tamil Nadu, Uttar Pradesh, Karnataka, Andhra Pradesh and Telangana.

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Direct sales agents rule the home loan market. To earn a commission, they shuffle the borrowers from one lender to another (borrowers, too, get the benefit of lower rates), but the churn raises the cost of acquisition for the lenders. The RBI could think of creating a lock-in period, say, two years, for the customers.

Finally, roughly 60-odd HFCs out of 102 are covered by the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (Sarfaesi) Act 2002. This helps them recover dues from defaulting borrowers. In November 2017, the National Housing Bank (the erstwhile mortgage regulator — now the supervisor) formulated, on the finance ministry's advice, certain eligibility "criteria" for the HFCs to get this benefit. Since then, none has got the nod to take the defaulters to task under the Sarfaesi Act. Can't this be simplified?

The writer, a consulting editor with Business Standard, *is an author and senior adviser to Jana Small Finance Bank Ltd*

Twitter: TamalBandyo

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